

BRITTANY ENERGY INC.  
FORMERLY BRITTANY CAPITAL CORPORATION

1997 ANNUAL REPORT





# C O R P O R A T E   P R O F I L E

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Brittany Energy Inc., formerly Brittany Capital Corporation, is an emerging, growth oriented junior resource company engaged in the acquisition, exploration and development of oil and natural gas properties in Alberta and Saskatchewan. Brittany's common shares are listed for trading on The Alberta Stock Exchange under the trading symbol "BNY".

# A N N U A L   M E E T I N G

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The annual meeting of the shareholders of Brittany Energy Inc. will be held in the conference room on the second floor of the Altius Building, 500 - 4th Ave. S.W. Calgary, Alberta on Friday, May 29, 1998 at 2:30 p.m.

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# 1997 HIGHLIGHTS

	1997	1996	CHANGE %
<b>FINANCIAL</b>			
Petroleum and Natural Gas Sales	\$807,355	\$623,115	+30.0
Cash Flow	362,453	374,522	-3.0
Net Earnings (Loss)	(20,476)	67,610	-130.0
Per Common Share			
Cash Flow	0.04	0.05	-20.0
Net Earnings (Loss)	(0.00)	0.01	
Assets	\$4,874,315	\$1,472,072	+230.0
Common Shares Outstanding			
At end of Period	10,807,213	8,701,001	+24.0
Production			
Oil & Ngl's Bopd	78	88	
Gas Mcfd	443	-	
Total Boepd	122	88	+39.0
Land Base			
Gross Acres	56,809	12,165	+375.0
Net Acres	17,395	3,633	+20.8

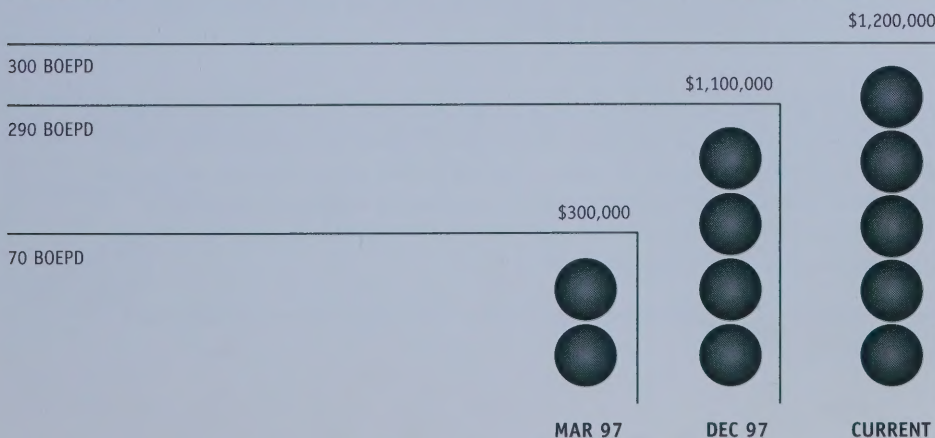
## RESERVES

Through 1997, the Company's oil, gas and natural gas liquids reserve base grew substantially. On a barrel of oil equivalency basis, using 10 Mcf to one Bbl of oil, Brittany grew 299 percent on a proved basis and 693 percent on a proved plus probable basis.

	1997			1996			CHANGE	
	OIL MSTB	NGL'S MSTB	SALES GAS MMCF	OIL MSTB	NGL'S MSTB	SALES GAS MMCF	BOE MSTB	%
Proved Producing	298.2	10.5	1,966.7	142.9	0	0	362.5	+253
Proved Non-Producing	0	0	643.2	0	0	0		
Total Proved	298.2	10.5	2,609.9	142.9	0	0	426.8	+299
Probable (not risked)	265.0	1.7	2,909.9	0	0	0		
Total Proved + Probable	563.2	12.2	5,580.7	142.9	0	0	990.6	+693

## PRODUCTION

## ANNUALIZED CASH FLOW



# P R E S I D E N T ' S   M E S S A G E

## ***Establishing, Expanding and Exploiting Brittany's Asset Base Within A Changing Oil Patch***

This past year was an excellent one for Brittany Energy Inc. We generated a solid oil and gas production platform from which we can provide additional growth for our shareholders. This was achieved in a period of profound change within the industry that affected: commodity pricing in oil and gas; transportation costs; hardware, rig and personnel availability; and the overall cost of doing business. The year ended December 31, 1997 was a year of record growth for Brittany. Our production grew by over 300 percent with proven and probable reserves up dramatically at 6.9 times what they were a year ago. Of significance is Brittany's high quality exploration and development inventory as it has grown substantially; primarily in the Therien and Elcott areas, both of which will continue to generate strong growth by providing years of exploration and development opportunities.

## ***1997 in Review***

An active 1997 acquisition and drilling program resulted in significant increases in production, reserves and revenues for Brittany Energy Inc. for the year ended December 31, 1997.

Average production increased 39 percent to 122 Boepd from 88 Boepd in 1996. Fourth quarter activity boosted production to 291 Boepd, up 316 percent from the previous year. Oil and natural gas liquids production make up 64 percent of the revenue stream at 193 Bopd and gas is produced at 977 Mcfd, a commodity not on Brittany's books through the first half of 1997.

Brittany realized average oil and liquids prices of \$26.00 per barrel on its high quality crude produced at Elcott in southeast Saskatchewan and at Twining and Enchant in southern Alberta. Gas prices were also strong throughout the year averaging \$1.70 per Mcf.

Net capital expenditures incurred in 1997 amounted to \$3.5 million, including \$0.9 million on exploration and development and \$2.6 million on asset acquisitions.

Total proved reserves at year-end were 308.7 Mbbls of oil and Ngls and 2.6 Bcf of gas for an overall improvement of 299 percent on 1996. Proved plus probable reserves were 575.4 Mbbls of oil and Ngls and 5.6 Bcf of gas.

The capital program replaced 1997 production volumes by 10.6 times, on a proved reserve basis and 23.3 times on proved plus probable. This yielded a finding and development cost of \$6.44 per boe on a proved basis and \$3.24 on proved plus probable.

The Company participated in the drilling of eight wells, 2.2 net, through 1997, primarily in the latter half, resulting in 2 gas and 6 oil wells.

Total debt outstanding amounted to \$492,596 of a \$1.5 million line of credit and is attributable to the property acquisition net of cash received from Brittany's partial disposition of its Elcott properties.

## ***1998 OUTLOOK***

The year is shaping up to be another outstanding year for Brittany Energy Inc. with production increases in oil and gas and natural gas liquids expected from all of our core areas in west central Alberta, southern Alberta and southeast Saskatchewan. With a capital budget conservatively set at \$2.5 million, net of any share issuances, Brittany will grow primarily with the drill bit on internally generated and funded exploration and exploitation projects. Approximately 70 percent of the budget is targeted towards these drilling efforts with an oil production level expected to increase by 200 plus barrels per day and gas 600 plus Mcfd, with a year end exit rate projected to be over 550 Boepd.

Certain capital items will reflect engineering - facility/battery work, well tie-ins and field compression that will comprise approximately 15 percent of the budget.



## P R E S I D E N T ' S   M E S S A G E   ( C O N T I N U E D )

We look forward to continuing to exploit our existing land base of 56,809 gross, 17,395 net, acres and adding to it in existing areas of operation and on the exploration front where leads have already been established and some action taken to enhance our position.

Brittany is adapting well to the changing energy business environment and we intend, amongst the many pending Corporate mergers, the temporary disfavor toward the Heavy Oil sector and a similarly temporary slump in liquids pricing, to continue to generate and maintain that balanced oil and gas portfolio of producing properties and drillable prospects situated in the Western Canadian Sedimentary Basin.

### ***Brittany - The Company: Its People***

The new management team has been in place for nine months now at Brittany Energy Inc. With the recently added help of (i) an in-house engineer, expert in the areas of oil and gas drilling, completions and facilities (ii) a chartered accountant who brings his financial expertise to Brittany and (iii) the other geophysical, land administration and production revenue consultants who all worked hard to see that our capital was and is well deployed, the staff at Brittany has grown sufficiently through 1997 to manage and guide the increased asset base and production volumes.

At the same time Brittany is committed to keeping general administrative expenses to a minimum and will not expand its staff levels until such time as our production base warrants this increase. Corporately, being able to capture and convert an employees' untapped potential within Brittany's growth environment has resulted in our below industry average finding and development costs and is one very positive example of how individual efforts have impacted our bottom line in 1997.

### ***Discussion and Acknowledgements***

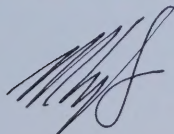
Throughout 1997 we have seen dramatic growth in land holdings, production and net asset value.

Capital expenditures at \$3.5 million, were up significantly over 1996 and resulted in one major acquisition from Wintershall, one intermediate acquisition at Turin and several minor deals at Enchant/Alderson. As a result, our debt load at year end amounted to a modest \$492,596.

On a 16 percent increase in revenues over the year to \$1,018,203 and cash flow from operations at \$362,453 or \$0.04 per share, our debt to cash flow ratio sits at 1.4. Going forward into 1998 Brittany expects its debt to cash flow to be reduced to allow for the next significant property or corporate acquisition to be considered. While continuing to focus attention on the day to day details of drilling and keeping producing properties up and revenue generating, this growth record is what the management and staff at Brittany have been successfully building for its shareholders in 1997 and are continuing with through 1998.

In conclusion, I would like to thank our Board of Directors for its feedback and guidance through 1997, a turning point year and also Brittany's shareholders, both long term and new, for their continued support of the Corporation.

Respectively submitted,



Malcolm P. Inglis,  
President & C.E.O.

# AREAS OF OPERATION

## Southeast Saskatchewan

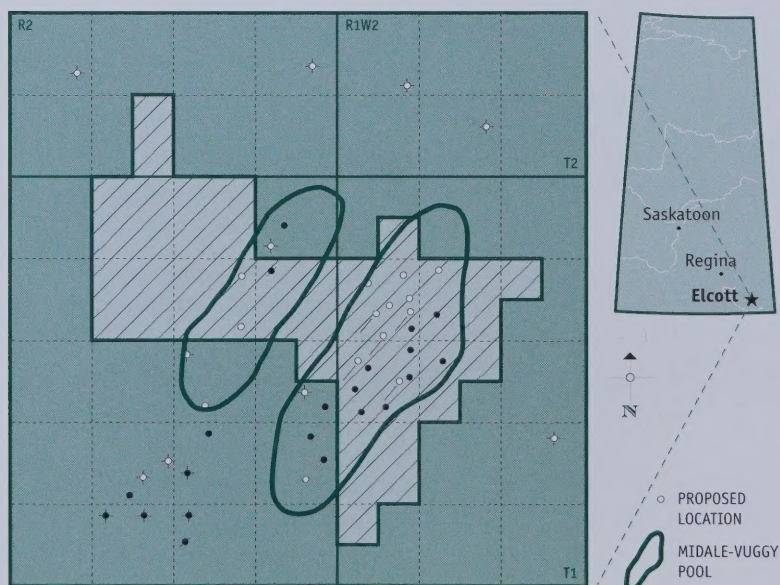
### ELCOTT

Brittany has 7992 gross, 2928 net, acres of land in the Elcott/Oxbow area of southeast Saskatchewan. The Company currently has an interest in 13 producing oil wells with an average working interest of 29%.

Two horizontal and three vertical Midale Vuggy oil wells were drilled and cased in the 4th quarter of 1997 and are currently pumping sweet 39° API oil. The verticals are averaging 45 barrels of oil, 11 net, per well per day; the horizontals are averaging 135 barrels of this sweet crude, 40 net, per well per day. The 16/11-19-1-1 W2M horizontal well drilled flat for 419 meters and 11/4-19-1-1 W2M for 190 meters, both giving us the expected increased productivity and justifying their \$300,000 per well incremental cost over vertical tests.

Brittany and its partners intend to drill four horizontals, and two verticals into the pool in 1998, adding 150 plus net barrels of oil per day. Wells drilled through 1997 will be flow-lined within the existing infrastructure and production pumped to a central battery where water disposal facilities, already in place, will be activated and reduce field transportation costs substantially.

### ELCOTT - PROPOSED MIDALE DRILLING



A step-out location at 13-25-1-2 W2M encountered 4 metres of tighter Midale and is currently producing 10-12 barrels of oil per day. Further work is being contemplated in terms of additional step-out locations into higher 45% working interest land, which may include the drilling of a higher productivity horizontal well.



## AREAS OF OPERATION (CONTINUED)

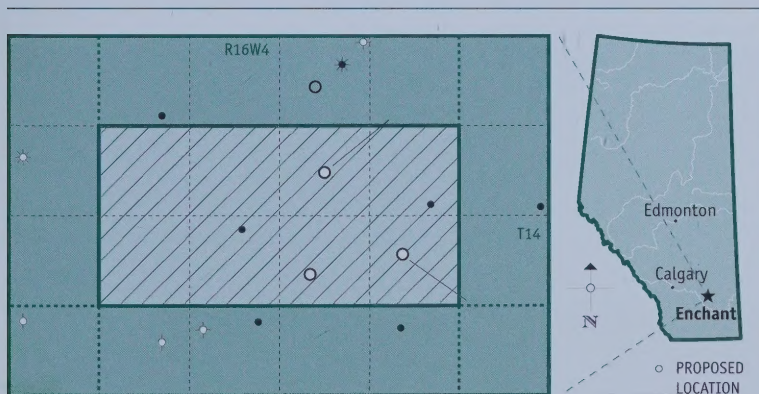
### **Southern Alberta**

Brittany has interests in 6240 gross, 2246 net, acres of land in this area. Production is from the Glauconite, Taber, Livingstone and Nisku Formations with further potential in the Second White Specked Shale and Viking Formations. The current daily production is 89 Boepd with 26 percent attributable to associated gas.

#### **ENCHANT**

Brittany has interests in 1,920 gross 709 net acres in the Hays/Enchant area. Production to date is from the Arcs formation and the Company intends to drill a minimum of one additional 19% net well prior to the Arc's AAA pool being unitized and waterflooded. Brittany holds a 0.06% working interest in the Enchant Hays Gas Plant and various additional interests in the gas gathering system feeding this plant.

#### **ENCHANT - PROPOSED NISKU DRILLING**

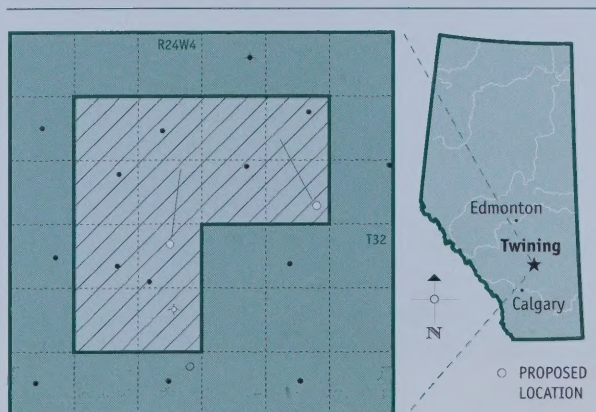


#### **TWINING**

Prior to September of 1997 this Pekisko oil and gas producing property was under performing and targeted by Brittany as a property worth acquiring. Successful workovers and equipment reparation saw production volumes jump two to three times what they were as at the August 1, 1997 effective date of our acquisition of this property.

Plans for 1998 are to continue tuning the existing wells and drill one infill horizontal for additional recoverable Pekisko reserves in the order of 300, 120 net, thousand barrels of oil.

#### **TWINING - PEKISKO TARGETS**



## AREAS OF OPERATION (CONTINUED)

### TURIN

In mid 1997 the Company acquired approximately 8 barrels of oil per day from two vertical wells as an entry fee into a 20 percent working interest in 640 acres of land in this area. In August we participated as to our 20 percent in Brittany's first horizontal well and production has averaged 45 barrels, 9 net, of oil per day. Midway into the 419 metre horizontal section of the well we encountered a higher pressure portion of an underlying formation which is restricting the well to the extent that it is producing less than half the volumes expected. Vertical follow up drilling of one of several isolated features in the section, noted after evaluation of a recently shot 3D seismic program, is expected in the first half of 1998. These structures have, together, potential recoverable reserves of 1.5 million barrels of oil, 0.3 million net, in the Taber and Livingstone Formations.

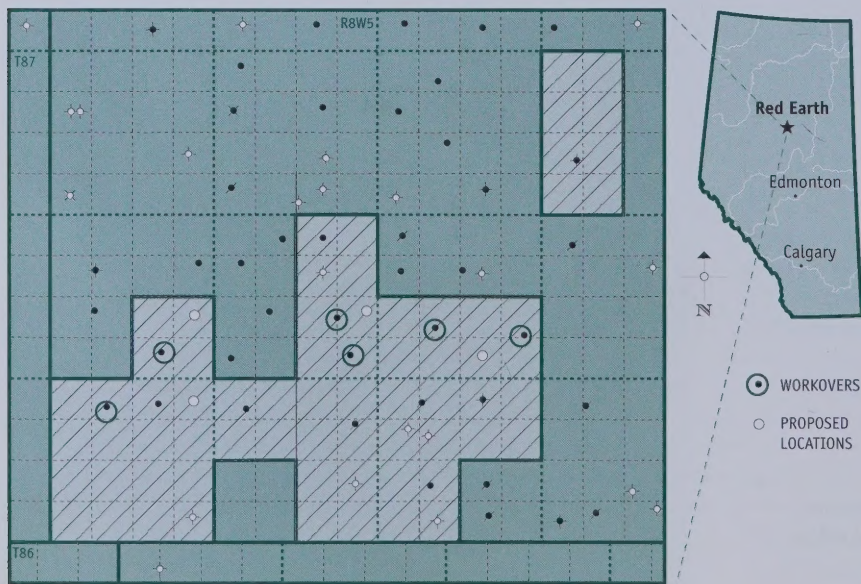
### *Northwest/Central Alberta*

#### RED EARTH

Brittany's Red Earth property consists of 3200, 433 net, acres of land and 12 oil wells, of which 8 are currently producing 240 plus, 32 net, Boepd. Production has remained flat through 1997 and Brittany plans to perform extensive workovers on the wells in this field and drill at least two step-out locations utilizing existing 3D seismic.

Production volumes could increase by 75 to 150% above existing levels, from workovers alone. New drill initial potentials range from 75 to 100 bopd or approximately 20 bopd net to Brittany from two wells, for a total potential production volume increase of between 44 and 68 bopd.

#### RED EARTH PROPOSED WORKOVERS





## AREAS OF OPERATION (CONTINUED)

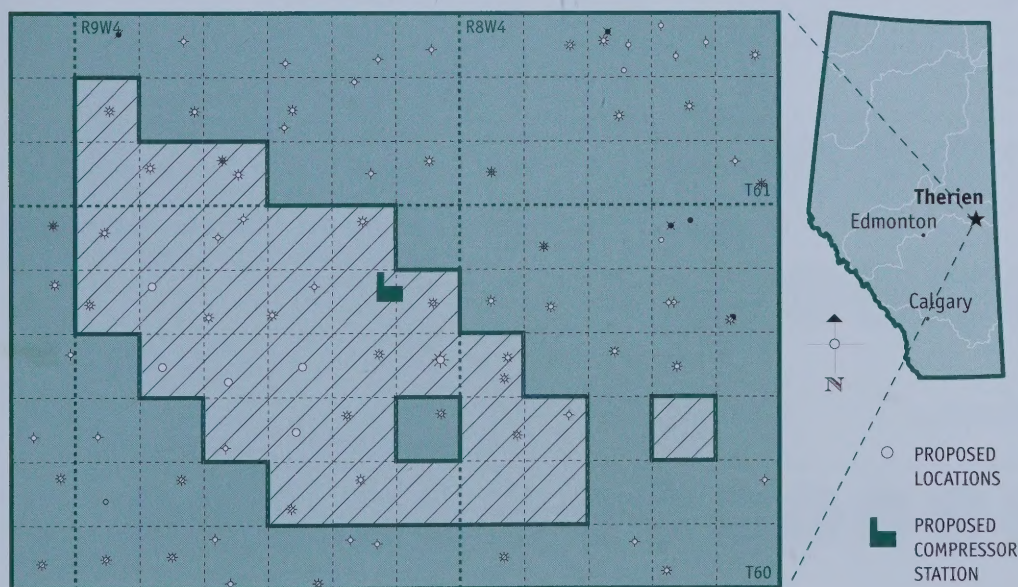
### THERIEN

Brittany has a working interest in 24,320, 7,091 net, acres of land in the Therien area west of Lindbergh, Alberta. This area is a known prolific shallow gas and heavy oil production area.

A Colony/Viking gas well was drilled late in 1997 at 9-24-60-9-W4M, 0.4 net and is awaiting completion, tie-in and field compression.

Wells in this area are operated by Brittany and flow to the Ashmont Gas Plant where Brittany holds a 14.98% interest. Budgeted for 1998 are three wells along with additions to the surface facilities in the form of one, possibly two compressors. Production could improve 100 to 150% above the current 400 MCFD.

### THERIEN LOCATIONS



In addition to the shallow gas potential of this area, Brittany is continuing to pursue its long-range plans of increasing its exposure to the heavier 12° to 15° API oils produced from this region. This long life heavy/intermediate oil reserve base has been the scene of progressively increasing land sale activity in 1997, but with the drop in oil prices late in 1997 and the resultant increase in price differentials for this heavier grade crude, it remains to be seen whether this activity level can be sustained throughout 1998. Brittany will continue to target very specific lands in this area with plans to exploit their potential using seismic, horizontal drilling and leading edge production techniques.



## AUDITORS' REPORT

To the Shareholders of Brittany Energy Inc. (formerly Brittany Capital Corporation)

We have audited the balance sheets of Brittany Energy Inc. as at December 31, 1997 and 1996 and the statements of earnings (loss) and retained earnings and source and use of cash for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and the source and use of cash for the years then ended in accordance with generally accepted accounting principles.



Chartered Accountants  
Calgary, Alberta  
March 13, 1998



# BALANCE SHEET

Brittany Energy Inc. (formerly Brittany Capital Corporation)

	December 31 1997	1996
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ -	\$91,077
Accounts receivable	462,001	90,390
Prepaid expenses	13,282	-
	<u>475,283</u>	<u>181,467</u>
<b>Due from employees (Note 6)</b>	46,250	-
<b>Property, plant and equipment (Note 2)</b>	4,352,782	1,290,605
	<u>\$4,874,315</u>	<u>\$1,472,072</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank indebtedness (Note 3)	\$492,596	\$ -
Accounts payable and accrued liabilities	608,590	92,123
	<u>1,101,186</u>	<u>92,123</u>
<b>Deferred income taxes</b>	686,609	150,092
<b>Future site restoration and abandonment costs</b>	87,137	56,765
	<u>1,874,932</u>	<u>298,980</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital (Note 4)</b>		
Common shares	1,779,102	1,032,335
Special warrants	1,100,000	-
	<u>2,879,102</u>	<u>1,032,335</u>
<b>Retained earnings</b>	120,281	140,757
	<u>2,999,383</u>	<u>1,173,092</u>
	<u>\$4,874,315</u>	<u>\$1,472,072</u>

Approved by the Board

Director

Malcolm P. Inglis

Director

Charles A. Teare



# AREAS OF OPERATION (CONTINUED)

## Exploration Areas

From April of 1997 Brittany has had the opportunity to review numerous third party prospects ranging in reserve size from 100 thousand barrels of oil equivalent to 10 million barrels of oil equivalent.

It is our philosophy to manage our risk capital, allocating 90% on low to moderate risk prospects, with 10% or less being targeted for the higher risk/large reward prospects. One and possibly two of these high risk prospects are being reviewed for the 1998 budget year.

On one such risk/reward project in southern Saskatchewan, Brittany has an interest in an extensive regional seismic shoot, has purchased land and within the year will, strategically, be ready to drill. Recoverable reserves of between 5, and 10 million barrels is attainable.

As this project is 100% Brittany held, it has the potential to significantly impact Brittany's size, net assets and shareholders value.

## SASKATCHEWAN LAND BASE

1996	12,165 Acres (Gross)	3,633 Acres (Net)
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1997	10,564 Acres (Gross)	4,924 Acres (Net)
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## ALBERTA LAND BASE

1997	46,245 Acres (Gross)	12,471 Acres (Net)
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## MANAGEMENT'S REPORT

Year Ended December 31, 1997

Brittany Energy Inc. (formerly Brittany Capital Corporation)

The management of Brittany Energy Inc. is responsible for the integrity and objectivity of the information included in this Annual Report and for the consistency between the financial statements and other financial and operating data contained elsewhere in the report. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and in accordance with accounting policies detailed in the notes to the financial statements. Where necessary, the statements include amounts based on management's informed judgements and estimates.

Management maintains a system of internal controls to provide reasonable assurance that all of the Company's assets are safeguarded and to facilitate the preparation of relevant, reliable and timely information.

Price Waterhouse, Chartered Accountants, appointed by the shareholders, have audited the financial statements and conducted a review of internal accounting policies and procedures to the extent required by generally accepted auditing standards, and performed such tests as they deemed necessary to enable them to express an opinion on the financial statements.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. The Audit Committee includes a majority of independent directors who are not employees of the Company. The Committee reviews the financial content of the Annual Report and reports its findings to the Board of Directors for its consideration in approving the financial statements.



Malcolm P. Inglis,  
President & C.E.O.  
March 20, 1998



## STATEMENT OF EARNINGS (LOSS) AND RETAINED EARNINGS

Brittany Energy Inc. (formerly Brittany Capital Corporation)

	Year ended December 31, 1997	
	1997	1996
<b>Revenue</b>		
Petroleum and natural gas sales	\$1,018,203	\$881,375
Royalties	(210,848)	(258,260)
	807,355	623,115
<b>Expenses</b>		
Production	227,083	174,302
General and administrative	206,026	47,974
Interest, net	11,793	26,317
Depletion, depreciation and amortization	351,569	222,320
	796,471	470,913
<b>Earnings before income taxes</b>	10,884	152,202
<b>Deferred income taxes (Note 5)</b>	31,360	84,592
<b>Net earnings (loss) for the year</b>	(20,476)	67,610
<b>Retained earnings, beginning of year</b>	140,757	73,147
<b>Retained earnings, end of year</b>	\$120,281	\$140,757
<b>Earnings (loss) per share</b>	\$(0.00)	\$0.01



## STATEMENT OF SOURCE AND USE OF CASH

Brittany Energy Inc. (formerly Brittany Capital Corporation)

	Year ended December 31	
	1997	1996
<b>Cash (used in) provided by operating activities</b>		
Net earnings (loss)	\$(20,476)	\$67,610
Add non-cash items		
Depletion, depreciation and amortization	351,569	222,320
Deferred income taxes	31,360	84,592
Cash flow from operations	362,453	374,522
Net change in non-cash working capital	131,574	(377,396)
	494,027	(2,874)
<b>Cash provided by (used in) financing activities</b>		
Issue of common shares	1,251,924	209,900
Issue of special warrants	1,100,000	-
Repayment of debt	-	(253,199)
Loans to employees	(46,250)	-
	2,305,674	(43,299)
<b>Cash (used in) provided by investing activities</b>		
Acquisition of property and equipment	(4,138,374)	(300,952)
Disposition of property and equipment	755,000	435,000
	(3,383,374)	134,048
<b>(Decrease) increase in cash</b>	<b>(583,673)</b>	<b>87,875</b>
<b>Cash, beginning of year</b>	<b>91,077</b>	<b>3,202</b>
<b>Cash (bank indebtedness), end of year</b>	<b>\$(492,596)</b>	<b>\$91,077</b>
<b>Cash flow from operations per share</b>	<b>\$0.04</b>	<b>\$0.05</b>



# NOTES TO THE FINANCIAL STATEMENTS

December 31, 1997

Brittany Energy Inc. (formerly Brittany Capital Corporation)

The Company is primarily engaged in the exploration for and production of petroleum and natural gas in Western Canada. On July 18, 1997, the Company changed its name from Brittany Capital Corporation to Brittany Energy Inc.

## 1. Summary of significant accounting policies

### Petroleum and natural gas properties

The Company follows the full cost method of accounting for its petroleum and natural gas operations, whereby all costs of exploration for and development of petroleum and natural gas reserves are capitalized. Costs include lease acquisition costs, geological and geophysical expenses, overhead directly related to exploration and development activities and costs of drilling both productive and non-productive wells. Proceeds from the sale of properties are applied against capitalized costs, without any gain or loss being recognized, unless such sale would significantly alter the rate of depletion.

Depletion of exploration and development costs and depreciation of production equipment is provided using the unit-of-production method based upon estimated proven petroleum and natural gas reserves.

The carrying value of petroleum and natural gas properties and production equipment, net of recorded deferred income taxes and future site restoration and abandonment costs, is compared annually to an estimate of future net cash flow from the production of proven reserves using year end prices, plus the lower of cost and estimated fair value of unproved properties, less estimated future general and administrative expenses, financing costs and income taxes. Should this comparison indicate an excess carrying value, the excess will be charged against earnings as additional depletion and depreciation.

Estimated future net costs of well abandonment and site restoration, including removal of production facilities at the end of their useful life, aggregate \$395,600 (1996 - \$165,000). Costs are based on estimates valued at year end prices and in accordance with the current legislation and industry practices. An annual provision for these costs is computed on a unit-of-production basis and is recorded as additional depletion expense for the year. The accumulated provision is classified as a non-current liability.

Actual expenditures are charged against the accumulated provision when incurred.

### Joint ventures

Substantially all the Company's activities are conducted jointly with others. These financial statements reflect the Company's proportionate interest in such activities.

### Earnings and cash flow from operations per share

Earnings and cash flow from operations per share are based on the weighted average number of shares outstanding during the year of 8,944,064 (7,701,001 for 1996).

### Hedging activities

Gains or losses on forward sales which have been arranged as a hedge against commodity price fluctuations are reflected in the product revenues at the time of sale of the related hedged production.

## 2. Property, plant and equipment

	1997	1996
Oil and gas property and equipment	\$6,035,864	\$2,711,370
Office equipment	76,815	17,935
	6,112,679	2,729,305
Accumulated depletion and depreciation	1,759,897	1,438,700
Net book value	\$4,352,782	\$1,290,605

At December 31, 1997, \$200,000 (1996 - \$Nil) of costs related to unproved properties were excluded from the depletable cost base. Administrative expenses of \$85,300 (1996 - \$Nil) related to exploration and development activities were capitalized as part of property, plant and equipment.

## NOTES TO THE FINANCIAL STATEMENTS

December 31, 1997

Brittany Energy Inc. (formerly Brittany Capital Corporation)

### 3. Bank indebtedness

At December 31, 1997, the Company has a \$1,490,000 demand revolving loan of which \$492,596 was utilized, which bears interest at bank prime plus 1% and is secured by a \$4,000,000 demand debenture with a fixed charge on all proven producing properties with values greater than \$100,000 and a floating charge over all other assets. Pursuant to the loan agreement, the loan is reduced by \$110,000 on the last day of each fiscal quarter.

At December 31, 1996, the bank indebtedness comprised a line of credit to a maximum of \$471,000 which bore interest at bank prime plus 1% and was secured by a fixed first charge on specific petroleum and natural gas properties as well as a floating debenture to a maximum of \$2,000,000.

### 4. Capital stock

Authorized

Unlimited number of common shares without nominal or par value.

	Number of shares	Dollar amount
Issued and outstanding		
Balance, December 31, 1995	7,701,001	\$919,035
Flow-through shares issued for cash (net of deferred income taxes of \$96,600)	1,000,000	113,300
Balance December 31, 1996	8,701,001	1,032,335
Issued for cash pursuant to		
Private placement	255,000	77,250
Flow-through shares (net of deferred income taxes of \$516,802)	1,732,212	657,748
Stock options exercised	130,000	32,500
Repurchased pursuant to normal course issuer bid	(11,000)	(5,910)
Share issue expenses (net of deferred income taxes of \$11,645)	-	(14,821)
Balance, December 31, 1997	10,807,213	1,779,102
	Number of special warrants	Dollar amount
Balance, December 31, 1995 and 1996	-	\$ -
Issued for cash	2,200,000	1,100,000
Balance, December 31, 1997	2,200,000	\$1,100,000
Total	13,007,213	\$2,879,102

#### (a) Warrants

In September 1997, the Company issued 2,200,000 special warrants at a price of \$0.50 per special warrant. Each special warrant entitles the holder to acquire one common share of the Company at no additional cost. If unexercised, these special warrants are automatically converted into common shares on September 25, 1998.

#### (b) Options

	Number of options	Exercise price	Expiry date
Options, December 31, 1996	390,000	\$0.25	July 22, 1999
Options granted, January 24, 1997	400,000	\$0.30	February 28, 2002
Options granted, April 4, 1997	95,000	\$0.40	April 4, 2002
Exercised	(130,000)	\$0.25	
	755,000		



## NOTES TO THE FINANCIAL STATEMENTS

December 31, 1997

Brittany Energy Inc. (formerly Brittany Capital Corporation)

### (c) Normal course issuer bid

The Company has established a normal course issuer bid that will enable the Company to repurchase up to 564,300 of its issued and outstanding common shares on the open market through the facilities of The Alberta Stock Exchange. The bid expires on December 3, 1998. During the year ended December 31, 1997, the Company repurchased and cancelled 11,000 common shares pursuant to the bid at a cost of \$5,910.

### 5. Income taxes

The provision for income taxes differs from the result which would be obtained by applying the combined Canadian Federal and Provincial income tax rate of approximately 44% (1996 - 44%) to earnings before income taxes. The difference results from the following:

	1997	1996
Computed expected expense	\$4,789	\$66,969
Increase (decrease) in taxes resulting from the following:		
Non-deductible Crown payments	55,131	54,408
Resource allowance	(32,237)	(53,859)
Depletion on assets with no tax base	8,944	23,691
Other	(5,267)	(6,617)
Deferred income tax recorded	\$31,360	\$84,592

The Company has the following tax deductions at December 31, 1997 available for deduction against future taxable income.

Canadian oil and gas property expense	\$1,473,000
Canadian development expense	615,800
Canadian exploration expense	203,100
Undepreciated capital cost	725,000
	\$3,016,900

The Company has financed a portion of its exploration and development activities from the proceeds of flow-through share issues. As a result, petroleum and natural gas properties with a cost of \$821,000 (1996 - \$341,000) have no cost basis for income tax purposes.

### 6. Related party transactions

On December 23, 1997, a director of the Company purchased 269,230 common shares of the Company at a price of \$0.65 per share on a flow-through basis.

On April 4, 1997, the Company loaned its Vice President, Land and Acquisitions, \$19,250 and its President \$27,000 to assist in the purchase of common shares of the Company. The loans are interest free for five years and there is no repayment schedule.

### 7. Financial instruments

The Company's financial instruments that are included in the balance sheet are comprised of cash, accounts receivable, prepaid expenses and all current liabilities.

#### (a) Oil and gas hedging

During 1996, the Company entered into one oil swap agreement for 50 bbls/day of production. The swap price is \$28.70 per barrel and covers the period from December 1996 to December 1997. There were no such agreements outstanding at December 31, 1997. There are no significant unrealized gains or losses on the outstanding swap at December 31, 1996.

#### (b) Fair values of financial assets and liabilities

The fair values of financial instruments that are included in the balance sheet approximate their carrying amount.

#### (c) Credit risk

A substantial portion of the Company's accounts receivable are with customers/partners in the oil and gas industry and are subject to normal industry credit risks. The oil swap agreement was with a major financial institution in Canada.



# CORPORATE INFORMATION

## DIRECTORS

Malcolm P. Inglis  
Calgary, Alberta

Raj Agrawal (1)  
Calgary, Alberta

Charles A. Teare (1)  
Calgary, Alberta

Robert W. Lamond (1)  
Calgary, Alberta

Robert L. McPherson  
Calgary, Alberta

(1) Audit Committee

## BANKERS

Hongkong Bank of Canada  
Calgary, Alberta

## LEGAL COUNSEL

Burnet Duckworth & Palmer  
Calgary, Alberta

## EVALUATION ENGINEER

Martin Petroleum & Associates  
Calgary, Alberta

## PERSONNEL

Malcolm P. Inglis  
*President & C.E.O.*

Larry Arnott  
*Vice President, Land & Acquisitions*

Barbara Corbett  
*Executive Assistant*

## STOCK EXCHANGE LISTING

Alberta Stock Exchange  
Trading Symbol "BNY"

## REGISTRAR & TRANSFER AGENT

CIBC Mellon Trust Company  
Calgary, Alberta

## AUDITORS

Price Waterhouse,  
Calgary, Alberta

## CORPORATE OFFICE

600, 500 - 4th Avenue SW  
Calgary, Alberta T2P 2V6  
Tel (403) 266-3327  
Fax (403) 266-3637  
Email: [brittany@cadvision.com](mailto:brittany@cadvision.com)

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## ABBREVIATIONS

Bbls	barrels
Mbbls	thousands of barrels
Bopd	barrels of oil per day
Mcf	thousand cubic feet
Mmcf	million cubic feet
Mcfd	thousand cubic feet per day
Mmcfd	million cubic feet per day
Bcf	billion cubic feet
Boe	barrels of oil equivalent
Mboe	thousands of barrels of oil equivalent
Mstb	thousand standard barrels
Boepd	barrels of oil equivalent per day
Ngl's	natural gas liquids
Natural gas is converted to oil using 10mcf = 1 bbl	

## CONVERSIONS

Thousand cubic feet of natural gas to thousand cubic metres; Divide by 35.49

Barrels to cubic metres; Divide by 6.26

Miles to Kilometres; Divide by 0.62

Acres to Hectares; Divide by 2.47



